MPSERS 2007 FAQ'S

Q.1 How do we account for the Michigan Public School Employees Retirement System (MPSERS) credit to be issued to local and intermediate school districts pursuant to Section 147 of the State School Aid Act?

A. The MPSERS credit is, admittedly, a very unique transaction. Because of that, the Department has reached a consensus on how to account for the MPSERS credit with a group of school business managers, an administrator of Michigan School Business Officials, independent auditors of school districts, Michigan Department of Education staff and Michigan Department of Management and Budget staff. Please see **Attachment A** for the details regarding the MPSERS accounting guidance.

Q.2 Where can I find the dollar amount of my district's credit and the corresponding breakdown of the federal and non-federal pieces?

A. The MPSERS has mailed letters dated June 6, 2007, to individual school districts with the amount of the credit for each district. Two copies of these letters have been mailed—one to the attention of the superintendent and one to the attention of the business manager. These letters do not give the breakdown of the credit between the federal and non-federal portions. To get the federal and non-federal portion, please go to the following website:

http://www.michigan.gov/documents/mde/FY07PSERS_credits_adj_198692_7.pdf

Q.3 When may my district take the credit from MPSERS?

A. The June 6, 2007 letter from MPSERS indicates that the credit has been applied to the districts' accounts and each district may begin taking the credit with the next scheduled MPSERS payment. Districts may begin taking the credit as early as the payment due June 20, 2007. Districts are encouraged to use the credit as soon as possible.

The State Aid payments will be reduced by the amount of the non-federal contribution credit in three equal adjustments (June, July, and August.)

Q.4 Does a district need to modify the federal grant budgets for the federal credit?

A. If the district chooses to use the federal credit to fund a function and an object other than that approved in the grant award, the district should revise the budget. If the amount of the change is less than 10% of the entire grant budget, the district may move expenditures from one approved line item to another without amending the budget. See 34CFR 80.30.

For example:

The total grant approved was $10,000. The federal retirement credit attributable to the grant is $50. The district had three line items on the budget, one for classroom instruction (1xx) salaries (1xxx) $8,000, one for classroom instruction (1xx) benefits (28xx) $1,500, and one for professional development (221) object (32xx) for $500. The district could move $50 dollars from the benefits category to either the professional development or salaries category with no budget penalty.

Q.5 Which federal salary base should I use to allocate the credit to my federal programs.

A. We recommend doing any necessary adjustments to the federal programs to assure that expenditures are appropriately recorded before applying the federal credit. After making this assurance, we recommend that the district determine the current year regular grant salaries (to avoid problems with using up carryover funds) as a proportion of the total federal salaries. Use that proportion times the district's total federal credit to determine each individual grant's share of the credit.

For example:

Total Federal Credit	$6,000	
Total federal grant salaries	$600,000	
Federal School Lunch salaries	$300,000	($300,000/$600,000 = .5 times $6,000 = $3,000)
IDEA salaries	$200,000	($200,000/$600,000 = .3333 times $6,000 = $2,000)
Title I salaries	$100,000	($100,000/$600,000 = .1667 times $6,000 = $1,000)
		$6,000

Q.6 Will failure to change my budget as a result of these credits cause a Uniform Budgeting and Accounting Violation?

A. Given the recommended accounting for these credits, districts should not experience a compliance problem with the Uniform Budgeting and Accounting Act. The Uniform Budgeting and Accounting Act requires a district to either reduce expenditures commensurate with reductions in revenues, or revise the budget to show that the board approves of using a greater portion of the fund balance in current year expenditures.

For the State portion of the credit, the district will continue to recognize the full amount of State School Aid Revenue and the full .1774 retirement rate will be incurred as an expenditure. Therefore, there is no effect on revenue or expenditure related to the non-federal wage credit.

For the federal portion of the credit, the district will be reducing both federal revenue and federal expenditure by the amount of the credit with no effect on fund balance.

Q.7 Will the federal credit affect my three day cash advance allowance?

A. In most cases, the district will have incurred unbilled federal expenditures since the last cash draw to offset the federal credit. The Cash Management System requires districts to report both total expenditures to date and cash received to date. It adjusts the current cash requested downward for any requests over and above the amount of cash needed to fund current expenditures.

Q.7 May I use the MPSERS credit against the MIP and TDP?

A. Yes, According to MPSERS you may use the credit against any payments due to MPSERS.

Attachment A

MPSERS 2006-07 Accounting Issue

Assumptions: Per Conversations with the Senate Fiscal Agency, Department of Management and Budget and Office of Retirement Services Staff, these are the assumptions used for the amendment Section 147 in Public Act 6 of 2007:

- On the State's 2006-07 Financial Statements there will be a reduction in State School Aid Expenditures of $262 million and a reduction in revenues to the Public School Employees Retirement System (PSERS) fund of $276 million.
- The Office of Retirement Services will issue a credit to districts for $276 Million ($262 Million State and $14 Million Federal). These amounts include the $86 Million Interest on Unfunded Liability.
- The credit issued on behalf of the district FOR NON-FEDERAL salaries shall be considered to be a payment on behalf of the district for the purpose of calculating payments under Section 22b for 2006-07. (In other words, the district will be reporting state revenue without receiving cash through the State Aid payment system.)
- The language is silent as to the nature of the credit for federal wages.
- The calculation of credits issued is based on the *Total Statewide Payroll for all districts and intermediate districts for the State Fiscal Year ending September 30, 2006*.
- Kerrie Vanden Bosch - Office of Retirement Service verified:
    - The credit will be given toward 2006-07 contributions.
    - The effective retirement rate does not change. It remains at 17.74% for fiscal year 2006-07.
    - The federal portion of the credit should be considered a credit against current year federal programs.
    - The credit is not a liquidation of excess reserves.

Statement of Problem: Determine an acceptable accounting treatment for the MPSERS "Credit" and the reduction in cash received from the State Aid Fund.

Because the State Aid Act is specific as to the nature of the credit for non-federal wages, there will be a non-cash accounting transaction for the non-federal portion of the credit with no related reduction in actual non-federal retirement expenditures or State Aid Revenue for fiscal year 2006-07.

The Federal wages present a challenge in that the State Aid Act is silent as to the nature of that credit. Therefore, we must follow guidance given in OMB Circular A-87, Appendix B – Selected Items of Cost Related to Pension Plan Costs:

> *The federal government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the government unit in the form of a refund, withdrawal, or other credit.*

Because the wage base will be different in the school districts' 2006-07 fiscal year than it was in 2005-06 and PSERS has already determined a "credit dollar amount" for each district; districts are encouraged to implement the least disruptive method to distribute the expenditure credits to the federal grant retirement expenditures on the 2006-07 financial statements.

Accounting Transactions for an Example Public School District with an $11,000 total MPSERS credit ($10,000 non-federal and $1,000 federal)

1) To Account for the **Non-Federal** wage portion of PSERS credit

Debit /asset (192 -Prepaid expenditure) $10,000 *

Credit revenue (311-State Unrestricted Revenue Foundation Allowance $10,000

* Recording this transaction **will not** affect individual retirement expenditures for non-federal wages

2) To Account for the **Federal** wage portion of PSERS credit

Debit asset (192 -Prepaid expenditure) $ 1,000

Credit Various 2006-07 Federal Grant Program Exp. in Proportion to the Total Federal Credit $1,000*

(For example, if a district has 2006-07 Title I wages of $10,000 and total 2006-07 federal wages of $100,000; 10% ($100) of the federal credit should be credited to 2006-07 Title I retirement costs.)

* Recording this transaction **will** affect individual retirement expenditures for federal wages

3) To liquidate the credit in future PSERS payments

Debit actual expenditure functions/objects for full (.1774) $12,000

Credit asset (192 -Prepaid expenditure) $11,000

Credit Cash $1,000